

Insurance Practice

# Revolutionizing insurance: The personalized insurance engine

Uwe Stuhldreier—an executive at HUK24, Germany's largest fully digital direct insurer—discusses a customer-centric, digitally enabled business model that could shape the future of insurance.



**Insurers with digital business models** are leading the charge at a time when customers are increasingly demanding the sophisticated, on-demand tools they know from other industries, from retail to healthcare. Some insurance carriers are close to achieving what may be called a “personalized insurance engine”: a fully automated customer journey, from initial product research and sales to claims, that leads each individual customer through a convenient, data-driven experience that feels fully tailored to them and comparable to interacting in person.

And yet, more than 80 percent of insurance products (with some variation depending on the line of business) are still sold offline today.<sup>1</sup> However, especially given the dramatic shift toward digital interaction brought on by COVID-19, the shift to digital in insurance is underway—with increasing pressure to automate in order to realize efficient cost structures and therefore be able to offer competitive prices, and to meet the immediacy that customers expect from other industries. If they want to compete with digital natives, traditional insurers will have to adapt—and there is a lot of progress to be made.

Since its founding in 2000, HUK24 has been at the forefront of online insurance services (see sidebar, “About HUK24”). Today the company is the largest direct motor insurer in Germany and the third largest overall in terms of its new motor business.<sup>2</sup> HUK24’s growth has been largely due to its prioritization of simplicity for its customers, as it automates and expands online access across the customer journey. We spoke to HUK24 executive Uwe Stuhldreier on how the personalized insurance engine works, how it can cater to customers’ needs, and how it may become an important game-changer for the insurance industry going forward.

**McKinsey:** How can a personalized insurance engine understand and meet the needs of customers?

**Uwe Stuhldreier:** Overall, it’s quite simple: many people find insurance difficult to navigate and hardly enjoyable. A personalized insurance engine enables quicker and simpler interaction and ensures each customer gets the most suitable product in line with his or her individual situation. The engine can also offer real-time review of an application to help ensure the sale is completed more quickly, thus

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<sup>1</sup> *Insurance distribution channels 2019*, German Insurance Association (GDV), 2019, gdv.de.

<sup>2</sup> Finanzmarktpanel, *Growth from Knowledge*, 2019, gfk.com.

**A personalized insurance engine enables quicker and simpler interaction and ensures each customer gets the most suitable product in line with his or her individual situation.**



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creating more value for customers as immediate response becomes the norm across industries. Based on available data, even a one-click buy approach similar to Amazon's, for example, is feasible for insurance products.

This is because at its core, insurance is a standardized product. Unlike the potentially inconsistent intuition of a human agent, the insurance engine can use advanced analytics to parse the vast amounts of existing data to deduce what individual consumers need. With permission and subject to appropriate privacy and data protection guidelines, the engine can also consider the customer's unique characteristics, such as web history and device usage. This information can then feed into product recommendations and AI-based chatbots ready to answer questions. For example, when a price-conscious customer is shopping for insurance, the engine can prioritize offerings such as usage-based insurance or telematics offerings that reward safe driving.

**McKinsey:** Where are insurers today on the journey to offering a personalized insurance engine?

**Uwe Stuhldreier:** Insurance is an inherently complex industry, and building a personalized insurance engine is no simple feat. It is an ambitious target. Discrete elements, however, such as artificial intelligence–based chatbots, are the norm today, and voice interaction is only one step beyond that. Many insurers have invested substantially in technology, data-management capabilities, and improving customer acquisition, for example, via smart bidding technologies on search engines or intelligent programmatic marketing approaches.

However, digital-native insurers definitely have the advantage on the road to building a personalized insurance engine, because other insurers are often restricted by traditional structures and mindsets that need to be disrupted for change. Digital business models mean that each customer touchpoint is also a point of sale, so customer centricity needs to be a core value: if the offering doesn't meet the customer's expectation, all they need to do is click out—and the customer is gone. Since the customer is in the driver's seat, a satisfying digital experience is an indispensable prerequisite for success.

**McKinsey:** What do insurers need to do to build a personalized insurance engine?

**Uwe Stuhldreier:** The structures that support that experience are both technological and organizational. The technological aspects require a range of new capabilities such as real-time data management for closed-loop marketing—tracking customers across all touchpoints with the insurer. The organizational aspects require flat hierarchies with cross-functional teams of both business and technology professionals; such teams can ensure decisions are not based on intuition but on customer behavior, measured through key performance indicators along the sales funnel.

The fundamental success factors are an ambitious vision and truly embracing the customer's view without compromise. Already, despite—or maybe because of—purely digital interaction across functions (other than claims, which usually require human interaction), we've reached satisfaction rates at the level of traditional insurers.<sup>3</sup> Going forward, an insurance engine must consistently become a better version of itself, with one question

at the core: what do customers want? Most often, the answer manifests as utmost simplicity and ease in digital communication, and price advantages for the customer.

Consequently, we have to monitor points in the journey where customers routinely get stuck and proactively apply fixes to reduce the need for human help. It also means we need to develop new services that are beneficial for customers, from digital cancellation services with other insurers to automated contract offerings based on major life events or uncovered needs. Given that insurance is often a timely purchase tied to life events such as starting a family or buying a home, it is important to reach out to customers at the right moment.

**McKinsey:** What insurance segments are poised to make immediate progress—and which have work to do?

**Uwe Stuhldreier:** Of course, the cost advantage of the personalized insurance engine will be felt more quickly among digital natives with the tools and infrastructure already in place. Today, we have

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<sup>3</sup>Ranking: *Insurers*, ServiceValue, 2020, servicevalue.de.

## About HUK24

Founded in 2000, HUK24 is the direct insurer of HUK-COBURG. As the largest property-and-casualty direct insurer in Germany, it has 2.5 million customers today. Unlike many other direct insurers, customers can only interact digitally with HUK24 via chatbot, email, or the customer

portal, except for in claims where customers can draw on the full suite of interaction offerings with HUK-COBURG. HUK24 acts as its own risk carrier for property-and-casualty products, but it strategically uses services from HUK-COBURG along the value chain to realize its cost advantage.

With that, HUK-COBURG is able to address customer segments of younger, more price-conscious, and more informed customers, and it attracts a wide range of digital talents for the insurance sector.

cost ratios of 5 percent, whereas the overall market average lies at 17 percent.<sup>4</sup> Indeed, established markets for lines of business with higher shares of digital distribution, such as motor insurance, may already benefit from lower costs and, hence, prices in a highly competitive arena. Such competitive cost structures will also be attractive to product lines such as life insurance that currently have lower digital-distribution rates but are seeing low interest rates continue to squeeze margins. In addition to helping recover some of that margin through the cost efficiencies of automation, the personalized insurance engine can also enable life insurers to tap into data-based, personalized advice that can make the online journey more likely to steer a customer toward signing a contract.

Furthermore, in life insurance in particular, there will always be some customers who prefer to be advised by a real person and who are willing to pay a little more for it. Still, a personalized insurance

engine forms the basis for this operating model: in omnichannel settings, the insurance engine may refer customers to the most suitable channel based on the individual conversion probability.

**McKinsey:** What is your biggest takeaway from your journey toward the personalized insurance engine?

**Uwe Stuhldreier:** In the end, the digital customer experience needs to meet the high expectations that customers form in everyday life when communicating, shopping, or traveling. I strongly believe that insurers need to accept the opportunities created by a personalized insurance engine if they want to remain competitive in this complex, advising-intensive industry. If insurers don't, technology giants or innovative insurtechs will. True customer centricity and creating the utmost digital experience have always been at the core of our vision. We have been very successful with that, and we're not thinking of changing this focus

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<sup>4</sup>McKinsey Global Insurance Pools, 2019, McKinsey.com.



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anytime soon. But we need to continuously develop toward the vision of the personalized insurance engine to follow that path.

progress on the digital front, there is still a ways to go to achieve true customer centricity at the level of digital champions and enable true end-to-end automation that is entailed by the personalized insurance engine.

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The prospect of a personalized insurance engine will shape the industry over the next decade, with technology giants and insurtechs pushing the pace of the development. The key success factor is a seamless, automated end-to-end customer experience that caters to the individual's needs with little effort. While the industry has made good

**Uwe Stuhldreier** is the chief marketing and sales officer of HUK24, the largest direct motor insurer in Germany and the direct insurer of HUK-COBURG. Prior to becoming an executive at HUK24 in 2016, Stuhldreier held positions at Dresdner Bank, MLP, and CosmosDirekt, the direct insurer of Generali in Germany.

This interview was conducted by **Ulrike Deetjen**, a partner in McKinsey's Stuttgart office.

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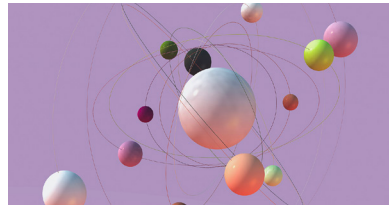
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